

## Message Text

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PAGE 01 STATE 051324

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DEPARTMENT PASS TO EXIMBANK

E.O. 11652: N/A

TAGS: EFIN ENRG

SUBJECT: U.S. BANKERS REVIEW PERTAMINA FINANCES

1. BEING SUMMARY: PERTAMINA, INDONESIA'S STATE OIL COMPANY, FROM FEBRUARY 25 THROUGH MARCH 2 HOSTED VISIT OF 28 U.S. BANKERS TO REVIEW PERTAMINA PROJECTS AND FINANCIAL SITUATION. VISIT WAS BENEFICIAL IN EMPHASIZING TO GOI AND PERTAMINA IMPORTANCE OF EARLY SOLUTION FOR LATTER'S FINANCIAL DIFFICULTIES. BANKERS AND HOSTS TOOK CONSTRUCTIVE APPROACH AND VISIT ENDED WITH GENERALLY OPTIMISTIC EXPECTATIONS THAT NECESSARY DECISIONS WOULD BE MADE TO SOLVE PRESENT FINANCIAL CRISIS. ND SUMMARY.

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PAGE 02 STATE 051324

2. PERTAMINA'S PRESIDENT, GENERAL IBNU SUTOWO, MET

U.S. BANK REPRESENTATIVES IN NEW YORK IN LATE JANUARY. HE INVITED BANKS TO SEND REPRESENTATIVES TO INDONESIA FOR FURTHER DISCUSSIONS AND FIRST-HAND VIEW OF PERTAMINA OPERATIONS. FOURTEEN BANKS RESPONDED, SENDING 28 REPRESENTATIVES. PERTAMINA'S FINANCIAL CONSULTANT, LEHMAN BROTHERS, ASSISTED IN PREPARATIONS FOR VISIT. PROGRAM INCLUDED MEETINGS WITH GENERAL IBNU, TOP PERTAMINA AND MINING DEPARTMENT STAFF, VISITS TO PERTAMINA PROJECTS (CILACAP REFINERY, JATIBARANG OIL FIELD, PLAJU FERTILIZER AND FUTURE AROMATICS CENTER, OFFSHORE OIL INSTALLATION, AND BATAM ISLAND), AND DAY-LONG SESSION WITH PERTAMINA FINANCIAL OFFICIALS.

3. PERTAMINA'S FAILURE TO PAY OFF \$40 MILLION SHORT-TERM LOAN FROM U.S. BANK SYNDICATE, DUE FEBRUARY 17, CREATED SERIOUS CONCERN THAT BANKERS VISIT COULD PRECIPITATE CONFRONTATION BETWEEN BANKERS AND PERTAMINA. FORTUNATELY, THIS ARREARAGE APPARENTLY HELPED PRECIPITATE INSTEAD DECISIONS BOTH WITHIN PERTAMINA AND GOVERNMENT. AS A RESULT, PERTAMINA WAS ABLE TO SETTLE ARREARAGE DURING BANKERS VISIT, AND TO PERSUADE BANKERS THAT HIGHEST LEVEL OFFICIALS RECOGNIZED SERIOUSNESS OF PERTAMINA'S FINANCIAL PROBLEMS AND WERE SEEKING CONSTRUCTIVE SOLUTIONS. INDIVIDUAL BANKERS HAD APPEARED TEMPTED TO TAKE COMBATIVE POSTURE. EFFORTS BY LEHMAN BROTHERS REPRESENTATIVE AND PERTAMINA OFFICIALS PREVENTED THIS OUTCOME, AS DID REMINNDERS BY OTHER BANKERS THAT BANKS THEMSELVES BY THEIR PREVIOUS EAGERNESS TO LEND TO PERTAMINA WERE PARTLY RESPONSIBBLE FOR PERTAMINA'S PRESENT SHORT-TERM DIFFICULTIES.

4. BANKERS WERE NEVERTHELESS POLITELY AND EFFECTIVELY CANDID IN STATING REQUIREMENTS FOR FUTURE BANK COOPERATION IN MEETING PERTAMINA'S FINANCIAL NEEDS. BANKERS NOTED PROSPECTIVE CONCERN BY U.S. FEDERAL RESERVE BOARD OVER QUALITY OF BANK LENDING TO PERTAMINA. THEY CITED AS IMPORTANT REQUIREMENTS FOR SOUND FUTURE RELATIONS:

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PAGE 03 STATE 051324

A) MORE CURRENT AND COMPLETE (AND AUDITED) FINANCIAL STATEMENTS, AND

B) NEED FOR CONSOLIDATION AND/OR REORGANIZATION OF PERTAMINA'S FINANCIAL OFFICIALDOM. (BANKERS STATEMENTS OF NEEDS FOR IMPROVEMENTS IN PERTAMINA'S PERFORMANCE WERE REINFORCED BY VERY SIMILAR POINTS MADE DURING RECENT

VISIT OF U.S. EXIM DIRECTOR JOHN CLARK.)

5. BANKERS OBTAINED GENERALLY FAVORABLE IMPRESSION OF PERTAMINA PERFORMANCE IN PROJECTS VISITED AND APPEARED SATISFIED WITH PRESENTATION BY PERTAMINA FINANCIAL OFFICIALS. DIRECT FAMILIARIZATION WITH PERTAMINA OFFICIALS AND PROJECTS APPEARED AS MAJOR BENEFIT OF VISIT.

6. PERTAMINA OFFICIALS WERE UNABLE TO PROVIDE CLEAR STATEMENTS OF EXACT SOLUTIONS ENVISAGED FOR PERTAMINA'S CURRENT FINANCIAL DIFFICULTIES. HOWEVER, FROM DISCUSSIONS WITH OTHER SOURCES, MOST BANKERS APPEARED PERSUADED THAT GOVERNMENT WOULD COVER PERTAMINA'S OBLIGATIONS AND THAT DECISION WOULD BE FORTHCOMING TO RESOLVE ITS PROBLEMS ON A LONGER TERM BASIS. OUR IMPRESSION IS THAT MOST BANKERS WILL ENCOURAGE PATIENCE AND CAUTIOUS OPTIMISM BY THEIR HOME OFFICES IN NEAR-TERM RELATIONS WITH PERTAMINA. HOWEVER, WE ALSO FEEL THAT BANKERS ARE LIKELY TO BE MORE DEMANDING OF DATA AND PROJECTIONS TRADITIONAL TO MORE CONSERVATIVE BANKING PRACTICES THAN HAVE BEEN EXERCISED IN PAST U.S. BANK LENDING TO PERTAMINA.

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